

# VIDEO GAMING\_ Let's Play!

## A long-term winner in the fast growing digital entertainment space

**. The video game sector is benefiting from multiple long-term growth drivers .**

### Digitalisation\_

Now that video games are distributed digitally (as opposed to physically), the monetization period and the margin generated by publishers are increasing (in-app revenues generate strong revenue growth, at better overall margin).

### Streaming\_

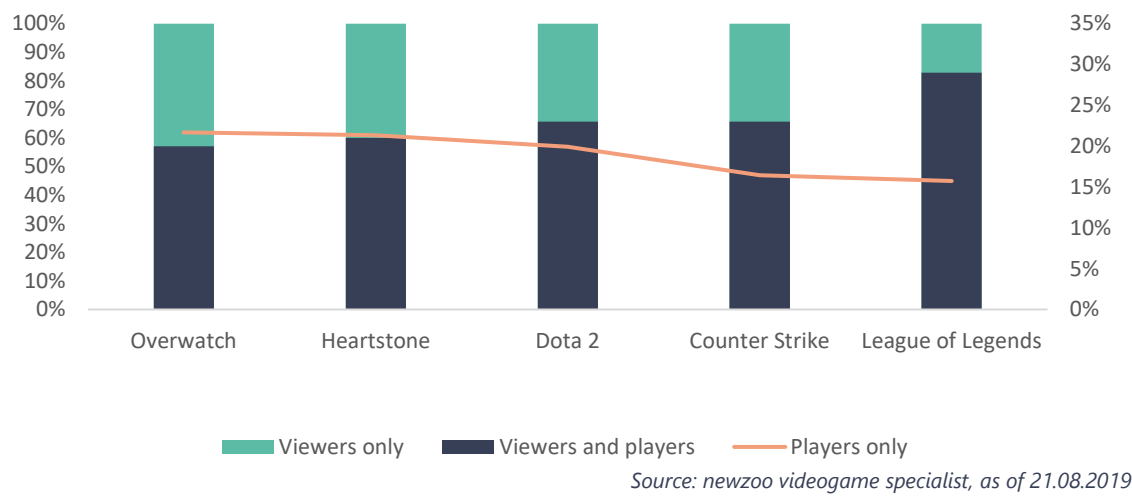
Big tech are investing heavily to create an ecosystem to enable video game streaming. One of the barriers to having more players is the cost of hardware. Video game streaming does make it cheaper and more accessible for potential players and will increase significantly the Total Addressable Market, especially within emerging markets.

**The video game sector is benefiting from multiple long-term growth drivers.**

E-sport\_

The general shift from player to viewer can be measured by the popularity of video game live streaming. This provides additional advertising revenue potential for publishers, with e-sport events gathering more than 200M viewers worldwide, and tech giants fighting over diffusion rights of e-sport stars.

Exhibit 1\_ Proportion of viewers and gamers

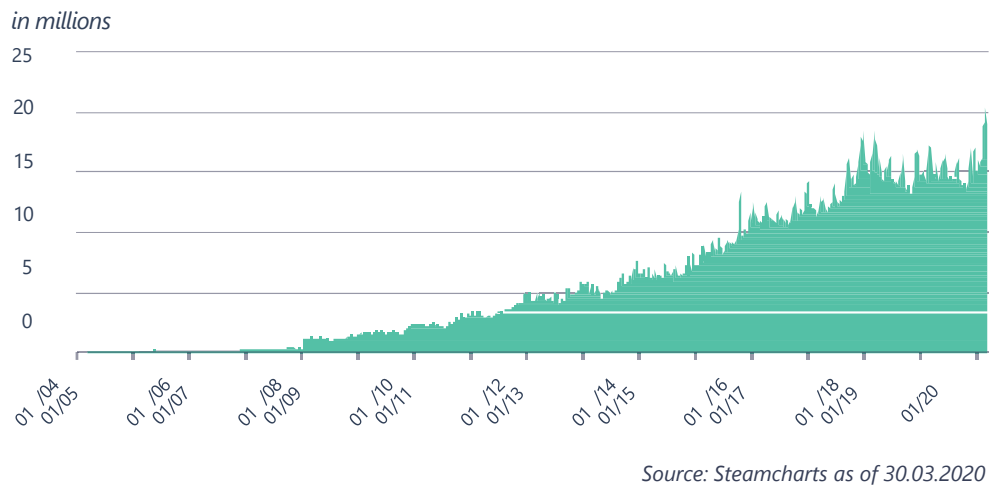


More and more players\_

There are more players worldwide who spend more time playing video games (thanks to mobile games, and the increasing proportion of women playing). In this environment, we anticipate that video game developers will have more pricing power in the future and will generate better margins as a result. We also expect developers who own their IP (Intellectual Property) to have more bargaining power, as they are able to attract more players.



Exhibit 2\_ Daily users on Steam, the largest digital market place for video games

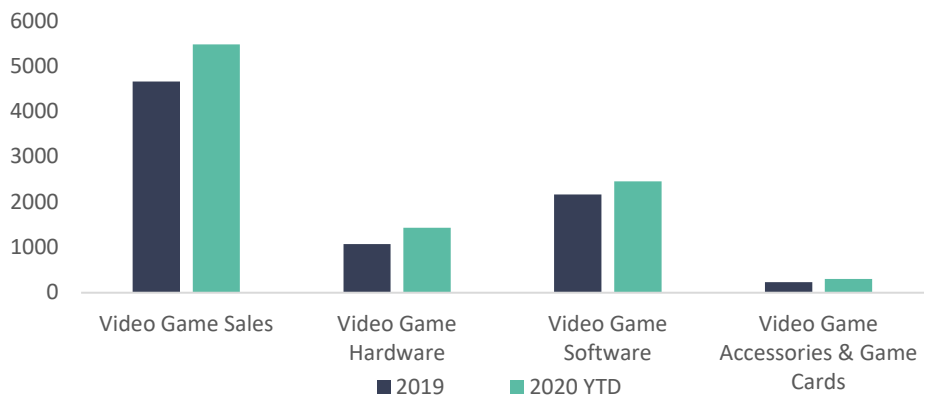


## . Usage boosted by people staying @home

During the pandemic, we witnessed a **more intensive use of video games**, see exhibit 3

- **Increase in gaming traffic:** +75% of the traffic during peak hours over at the beginning of the lockdown<sup>[1]</sup>
- **Increase of 60% (38 to 60 min a day) in daily playtime for shooters games** such as Call of Duty developed by Activision Blizzard<sup>[2]</sup>

Exhibit 3\_ Sales in \$M

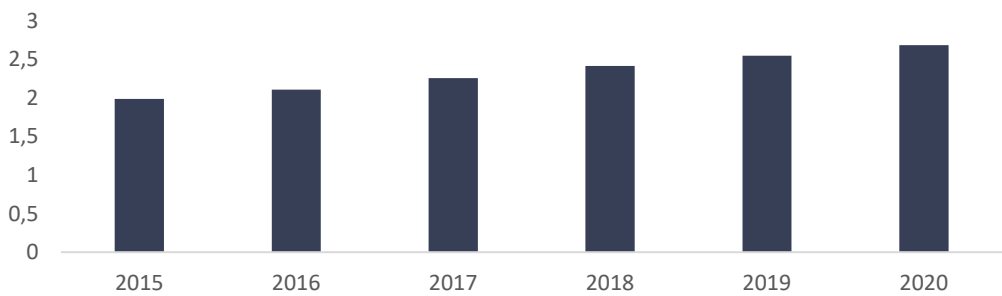


Source: Reuters as of 01.10.2020

In addition, more time available led to **wider adoption of video games** among the population (see Exhibit 4). The **demographic profile of gamers has been transformed**.

- More and more women define themselves as ultimate players
- Video games are attracting a **wider age range**, thanks in part to the aging of Generation Y

Exhibit 4\_Active video gamers worldwide in millions



Source: Reuters as of 01.10.2020

[1] Source : TheGuardian.com : Esports ride crest of a wave as figures rocket during Covid-19 crisis, 10.04.2020

[2] Source : Newzoo.com : What Gamers Are Playing & Watching During the Coronavirus Lockdown: Player Share & Viewership Spikes for Games & Genres, 17.04.2020  
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## . Not fully priced-in

Video game stocks performed well in 2020 amid more people staying @home. However when compared to other @home stocks, the sector is lagging significantly. This could represent an interesting catch-up opportunity.

**Exhibit 5\_Video Gaming publishers vs other @home stocks**



Source : Reuters as of 01.10.2020

*Comparison of two equally-weighted basket*

“The video game sector is lagging significantly compared to other @home stocks

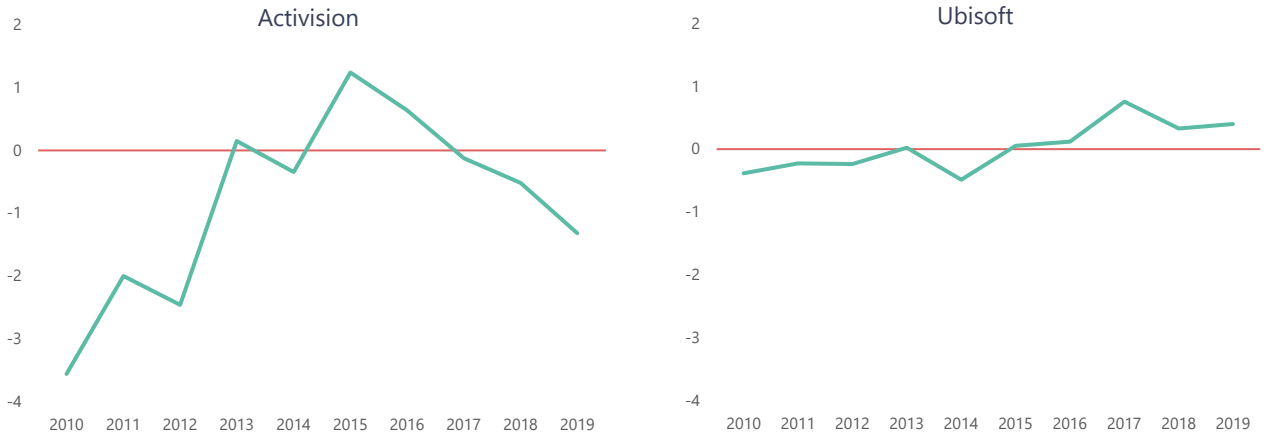
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- **Video gaming publishers:** Activision, Ubisoft, Take Two, Electronic Arts
- **Other @home stocks:** Spotify, Netflix, Zoom, Docusign, Hellofresh, Chewy, Fastly, Cloudflare, Peloton

## . With Strong fundamentals...

Strong organic cash generation and healthy overall fundamentals lead to pristine balance sheet.

Exhibit 6\_ Net Debt / Ebitda



Source: Reuters as of 01.10.2020

## ...And strategic synergies/M&A

Synergies/M&A are taking a prominent place in the gaming industry. Indeed, stakeholders are fighting to deliver exclusive content so they acquire strategic entities to block competitors from using this content.

- Microsoft recently bought Bethesda for 7.5 billion dollars (21.09.2020). The operation is historic in the world of video games by its scale. Through this takeover, the company is swelling its ranks with studios that have created major licenses such as Doom, The Elder Scrolls and Fallout and this is a **clear strategic move for Microsoft to gain exclusive access to premium content.**
- Sony bought a \$250 million stake in Fortnite creator Epic Games (09.08.2020). This allowed the two companies to broaden their collaboration across Sony's leading portfolio of technology assets, and Epic's social entertainment platform and digital ecosystem to create unique experiences for consumers and creators.
- We expect a lot more consolidation in the future with Ubisoft as a natural target.

## . our favourite stocks to play this thematic

### . pure players and video game publishers

European  
Star

Ubisoft\_ Assassin's creed & King of Persia leading to 2 movies, and multiple partnership

Classic  
giants

Activision Blizzard\_ Edit the lead games on the 3 main video gaming platforms : mobile (Candy Crush), PC (World of Warcraft) and console (Call of Duty), recent release of a Call of Duty Opus, strong e-sport community around the shooter game

Take Two Interactive\_ GTA, Red Dead Redemption and Civilization

New  
player

Zynga\_ Social games available on telephone

### . hardware

Video  
games

Nvidia\_ First-quarter revenue from gaming was \$1.34 billion, down 10 percent sequentially and up 27 percent from a year earlier. Expanded NVIDIA GeForce NOW™, which provides access to 650 games, with 1,500 more waiting to get on board, and has added 2 million users since going live in February<sup>[1]</sup>

ST Microelectronics\_ GaN technology enables gaming devices to handle more power even as they become smaller, more lightweight, and more energy efficient. Q3 net revenues are \$2.67B, up 27.8% sequentially

There are many  
ways to play this  
secular thematic

### . big tech

Nostalgic  
player

Microsoft\_ Developed a few of the most popular games ever (Age of Empire / Minecraft), recently bought Bethesda (Skyrim – role playing / Fall out – Shooter)

Streaming  
war

Amazon\_ Partnership with Ubisoft and launch of VG platform and owns Twitch since 2014 which is the most widely used streaming platform for video games (72% of the live stream market against 19% for YouTube<sup>[2]</sup>)

Google\_ Launch of Stadia in Nov 2019 and YouTube gaming brand

[1] Source : [investor.nvidia.com/quarterly results](https://investor.nvidia.com/quarterly-results), Q1FY21 & Q2FY21

[2] Source : [Newzoo.com : Streamlabs & Newzoo Q4 Year in Review Live Streaming Industry Report](https://www.newzoo.com/streamlabs), 17.01.2020

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